



MCI Telecommunications  
Corporation  
1801 Pennsylvania Avenue, NW  
Washington, DC 20006

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August 28, 1992

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Ms. Donna Searcy  
Secretary  
Federal Communication Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

AUG 28 1992

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: In the Matter of: Regulatory Reform for Local Exchange Carriers Subject to  
Rate of Return Regulation, CC Docket No. 92-135.

Dear Ms. Searcy,

Enclosed herewith for filing are the original and eleven (11) copies of MCI Telecommunications Corporation's Comments in the above reference matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of MCI's Petition, furnished for such purpose and remit same to the bearer.

Yours truly,

Gregory J. Darnell  
Manager, Regulatory Analysis

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

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In the Matter of:

Regulatory Reform for  
Local Exchange Carriers  
Subject to Rate of Return  
Regulation

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CC Docket No. 92-135

**COMMENTS OF MCI TELECOMMUNICATIONS CORPORATION**

Pursuant to the Commission's Notice of Proposed Rulemaking (NPRM), released July 17, 1992 in the above referenced matter,<sup>1</sup> MCI Telecommunications Corporation (MCI) hereby submits comments on the proposed regulatory reform for Local Exchange Carriers (LECs) subject to rate of return regulation.

In this NPRM, the Commission has proposed an optional incentive regulation plan for any non-price cap LEC that also does not participate in any NECA pool. The proposed optional incentive plan includes longer tariff periods, greater reliance on historical costs, broader earnings bands and greater pricing flexibility. The Commission requests comment on certain specific issues contained in the proposed incentive regulatory plan. MCI will herein provide its comments on some of these issues.

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<sup>1</sup> In the Matter of Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, Notice of Proposed Rulemaking, CC Docket No. 92-135, released July 17, 1992 (Notice).

## **I. Introduction**

The Commission has proposed to incorporate pricing flexibility into the incentive plan through a basket and service category system similar to price caps. It has proposed common line, traffic sensitive and special access baskets with categories of service within each basket. Further, the Commission has proposed that carriers be permitted to adjust rates within each category by no more than 10 percent, up or down, during an extended two year tariff period. MCI submits, that absent certain modifications, this incentive regulatory structure will not fulfil the Commission goals of fostering economic efficiency and will provide the small LECs with unwarranted and excessive pricing flexibility.

## **II. A Large Portion of the LEC Revenues Would Remain Uncapped**

The Commission has tentatively concluded that it should introduce regulatory reforms "to correct the efficiency disincentives that traditional, cost-plus regulation introduces."<sup>2</sup> The Commission has chosen as a starting point of this incentive regulatory plan a cap on the prices for common line, traffic sensitive and special access services. However, this will not accomplish the Commission's goal to correct the efficiency disincentives that are caused by traditional, cost-plus regulation. This is because a large portion of the small LEC's revenues will remain uncapped.

As can be seen in attachment 1, some of these small LECs receive more than one third of their total revenue from the Universal Service Fund (USF). However, the

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<sup>2</sup> Ibid., ¶ 3.

Commission's incentive regulation plan does not address this major revenue source of the so called, small LECs. As long as this major revenue source remains uncapped and is permitted to continue out of control, the small LECs will have little incentive to control their common line costs and increase efficiency because earning shortfalls could simply be made up through USF increases. Therefore, in order for the Commission's incentive regulatory plan to accomplish its goal of promoting economic efficiency, USF revenues should be accounted for and capped. By capping USF revenues, LECs which receive USF subsidies would still receive the funds they receive today, but they would also be motivated to control these costs or cover any additional costs in service from growth in traffic or seek relief through exogenous cost modifications to their common line incentive regulatory basket.

**III. The Commission's Proposal Would Provide Small LECs with Greater Pricing Flexibility than LECs Receive Under Price Caps**

The Commission proposes that incentive regulatory LECs be permitted to adjust rates within each service category by no more than 10 percent, up or down, during the proposed two year tariff period. MCI is not overly concerned at this time with the extension of the small LECs' tariff filing requirement from one year to two years provided that appropriate sharing provisions are established to refund any overearnings. MCI is concerned with the 10 percent service band pricing flexibility provided to small LECs under the proposed incentive regulatory plan.

Under Price Caps, LECs are provided with pricing flexibility of 5 percent per year

within each service band.<sup>3</sup> A 10 percent bi-annual pricing change limit may seem to be the same as an annual 5 percent pricing limit. However, it is not. The maximum initial impact of a rate change is different.

It currently takes a Price Cap LEC a minimum of one year to change the overall rates of a service by 10 percent. Under the Commission current incentive regulation proposal, a small LEC could make a 10 percent change in the price of a service all at once. This, obviously, is an additional threat to potential and existing competition and an increase in pricing flexibility as compared to the Price Cap plan. There is no reason for small LECs to have any more pricing flexibility under the incentive regulation plan than is offered to other LECs. Therefore, the maximum pricing flexibility which should be offered under the incentive regulation plan should be no more than the pricing flexibility available under current price caps. This need not cause conflict with the Commission's goal to reduce the administrative burdens by reducing filing requirements from an annual basis to a biannual basis. The Commission could limit the incentive regulation LECs' pricing flexibility to 5 percent per year with a cumulative impact up to a maximum of 10 percent over the two year filing period.

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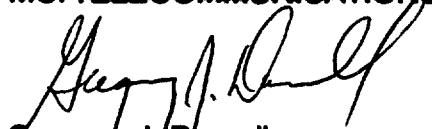
<sup>3</sup> 47 C.F.R. Part 61.47(e).

#### IV. Conclusion

Absent certain modifications, the Commission's proposed incentive regulatory structure will not fulfil the Commission goals of fostering economic efficiency and will provide the small LECs with unwarranted and excessive pricing flexibility. Therefore, the Commission should modify its proposed incentive regulatory structure for small LECs as described in these Comments.

Respectfully submitted,

MCI TELECOMMUNICATIONS CORPORATION



Gregory J. Darnell  
Manager, Regulatory Analysis  
1801 Pennsylvania Ave, NW  
Washington, DC 20006  
(202) 887-3290

Dated: August 28, 1992

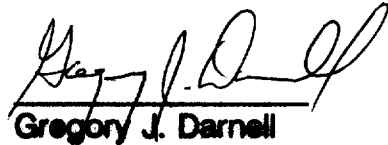
**COMMENTS OF  
MCI TELECOMMUNICATIONS CORPORATION  
CC DOCKET 92-135**

LOCAL EXCHANGE CARRIER	TOTAL REVENUE	USF REVENUE	USF AS PERCENT OF TOTAL
LOUISIANA WESTERN TELEPHONE COMPANY	3,984,971	1,463,771	36.73%
ELIZABETH TELEPHONE COMPANY INC	2,238,532	806,370	36.02%
DOBSON TELEPHONE CO.	5,422,879	1,941,867	35.81%
PENASCO VALLEY TEL. COOPERATIVE INC.	4,274,131	1,520,493	35.57%
CENTURY TELEPHONE COMPANY INC.	2,444,296	805,893	32.97%
WESTERN NEW MEXICO TEL. CO., INC.	9,947,221	3,185,996	31.22%
MATANUSKA TELEPHONE ASSOC., INC.	33,299,917	8,766,670	26.33%
CLEVELAND CTY TEL. CO.	2,863,668	694,812	24.26%
HONE TELEPHONE COMPANY- OLIVE BRANCH	8,786,443	1,972,571	22.45%
POTTAWATOMIE TELEPHONE CO.	4,684,630	1,043,646	22.28%
ALLTEL OKLAHOMA, INC.	11,532,738	2,548,678	22.10%
MID-RIVERS TEL. COOPERATIVE INC.	8,772,459	1,922,269	21.91%
CENTRAL LOUISIANA TELEPHONE COMPANY	12,276,378	2,666,868	21.72%
UNITED TELEPHONE ASSN. INC.	3,917,087	831,088	21.22%
MOUNTAIN STATE TELEPHONE CO.	13,862,280	2,906,583	20.97%
E.N.M.R. TEL COOP. INC.-NM	20,764,538	4,269,935	20.56%
CITIZENS UTILITIES RURAL COMPANY INC.	35,894,255	7,070,869	19.70%
HAPPY VALLEY TELEPHONE COMPANY	5,478,090	1,027,834	18.76%
ARCTIC SLOPE TEL. ASSOCIATION COOP. INC.	3,654,650	685,245	18.75%
THE PONDEROSA TELEPHONE COMPANY	13,648,295	2,537,034	18.75%
PUBLIC SERVICE TELEPHONE CO.	7,705,176	1,436,710	18.65%
BAY SPRINGS TELEPHONE COMPANY INC.	8,312,770	1,548,583	18.63%
OKLAHOMA COMMUNICATION SYSTEMS INC.	11,772,966	2,187,866	18.58%
NORTHEAST FLORIDA TEL. CO., INC.	5,368,497	984,941	18.35%
INTERIOR TELEPHONE COMPANY INC.	5,756,507	1,026,881	17.84%
MICLOUD TELEPHONE CO.	3,742,861	635,239	16.97%
WILKES TELEPHONE MEMB. CORP.	4,040,933	684,158	16.93%
EASTEX TELEPHONE COOPERATIVE INC.	17,126,942	2,896,510	16.91%
BLACKFOOT TEL. COOPERATIVE INC.	5,099,714	861,751	16.90%
ALLTEL FLORIDA INC.	46,944,125	7,917,016	16.86%
COLORADO VALLEY TELEPHONE CO-OP. INC.	4,406,950	739,813	16.79%
ALLTEL MISSOURI INC.	16,548,824	2,631,949	15.90%
CADDOAN TELEPHONE COMPANY	6,878,491	1,087,364	15.83%
RANGE TEL. COOP INC.-MT	5,317,106	833,076	15.67%
OKLAHOMA ALLTEL, INC.	11,532,738	1,787,551	15.50%
PLANT TELEPHONE COMPANY	6,372,338	979,552	15.37%
CITIZENS UTILITIES CO. OF CALIF.	97,021,062	14,832,725	15.29%
TAYLOR TEL. CO-OP., INC.	5,055,133	742,356	14.69%
CITIZENS TELEPHONE COMPANY - NC	8,757,160	1,282,286	14.64%
ALLTEL ALABAMA	13,958,413	2,038,919	14.61%
ALLTEL MISSISSIPPI INC.	6,148,609	858,388	13.96%
VALLEY TELEPHONE COOPERATIVE INC-AZ	4,789,808	665,203	13.89%
RURAL TEL. SERVICE CO., INC.	7,046,743	975,627	13.85%
COASTAL TELEPHONE & ELECTRONICS CORP.	7,944,954	1,092,126	13.75%
ALLTEL GEORGIA INC.	29,131,272	3,887,028	13.34%
SIERRA TELEPHONE COMPANY, INC.	21,509,808	2,804,427	13.04%
CAMERON TEL. CO.- LA	9,721,385	1,259,540	12.96%
CENTURY TELEPHONE OF ARKANSAS, INC.	9,343,069	1,171,983	12.54%
MONROEVILLE TELEPHONE COMPANY	9,272,810	1,162,818	12.32%
EVANGELINE TELEPHONE COMPANY	22,335,249	2,743,667	12.28%

Source: Statistics of the Local Exchange Carriers 1991, for the Year 1990, USTA, November 1991.

**STATEMENT OF VERIFICATION**

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 28, 1992.

A handwritten signature in black ink, appearing to read "Gregory J. Darnell", written over a horizontal line.

**Gregory J. Darnell  
Manager, Regulatory Analysis  
1801 Pennsylvania Ave., N.W.  
Washington, D.C. 20006  
(202) 887-3290**



## CERTIFICATE OF SERVICE

I, Dana Harris do hereby certify that copies of the foregoing MCI petition were sent via first class mail, postage paid, to the following on this 28th day of August, 1992:

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Dana Harris